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January 27, 2015

Iowa Division of Credit Unions

Report to the Joint Administration and Regulation Appropriation Subcommittee

The Iowa Division of Credit Unions supervises and regulates the 106 state chartered credit unions in Iowa. Our mission is to safe-guard the interests of over one million credit union depositors and shareholders through effective examination, administration and execution of laws relating to credit unions.

While the number of credit unions has declined primarily due to mergers of smaller institutions, complexity has increased and assets have grown over the past four years to \$12.7 billion, an increase of over \$3 billion in the four years I've been in my position.

Our vision is to provide for a regulatory environment in which Iowa's credit unions can prosper, operate in a safe and sound manner, and meet the financial service needs of their members.

Iowa state chartered credit unions are not-for-profit financial cooperatives which are regulated by the state and federally insured by the National Credit Union Share Insurance Fund. Individual accounts are insured up to \$250,000.

Agency Overview

As Superintendent, I am appointed to a four year term by the Governor and subject to confirmation of the Senate. The Superintendent is charged with the supervision of the credit unions, control and enforcement of the laws, bylaws, rules and regulations pertaining to the organization and operations of those institutions operating under a state charter.

The Credit Union Review Board meets quarterly and may adopt administrative rules or take other action as it deems necessary. The seven members are appointed by the Governor, confirmed by the Senate and serve staggered terms of three years.

The employees of the Credit Union Division are noncontract, non-merit employees. Currently, there are nine field examiners, including a Supervisory Examiner, four Senior Examiners and four examiners. We are looking to fill an examiner vacancy from interviews conducted last week. The three office staff include an Executive Officer/Staff Attorney, an IT Specialist, and Division Secretary. The budget request of \$75,000 is to fund the salary and benefits, as calculated by the Department of Management, for the remaining examiner position.

The need to have a fully staffed exam team has become more evident over the last several months. Two areas in particular, interest rate risk and cyber-security, are emerging as areas where additional monitoring and examination expertise are warranted.

Even a slow, gradual increase in rates could have significant consequences for a credit union with high concentrations in certain long-term investments and loans. We're working to ensure credit unions are mitigating any inordinate exposure.

As credit unions adopt new technology to meet member service needs, they and their members are exposed to a growing volume and sophistication of cyber-attacks. The global interconnectedness of today's networks raises operational risks and exposes credit unions of all sizes to cyber-criminals and cyber terrorists who have acquired programs to compromise data, steal identities, block transactions and crash financial systems.

Cyber security threats are no longer limited to large credit unions. Across the country, smaller institutions have been identified as vulnerable entry points to infiltrate larger networks. Sixty five of our state chartered 106 credit unions are less than \$50 million in assets and 28 of those are less than \$10 million, yet their cyber-security danger threshold cannot be ignored.

We have increased our examination staff training, with each examiner completing one to two weeks of in-depth training with classes through the Federal Financial Institution Examination Council and/or the National Credit Union Administration. Our areas of training are concentrated in cyber-security, member business lending, fraud detection and compliance.

The Division's core functions are regulation and compliance and resource management.

Iowa Code provides that examinations will be made whenever necessary, but in no event less frequently than once in a twenty-four month period. Our target is to perform 80 examinations annually. We are exceeding that target last year, with 94% of our credit unions being examined within a 12 month cycle. The National Credit Union Administration, as the federal insurer, joins us on all examinations of those credit unions over \$250 million and others as they can be scheduled.

Our performance target is to have 100% of Iowa Credit Unions performing in a safe and sound manner. We achieve our results by working to identify, measure, monitor, and control unacceptable levels of risk through a risk-focused supervision and examination program. We have no credit unions considered to be in troubled condition.

Over the last four years, the Division has worked to improve the communication with credit unions by responding promptly to inquiries, holding educational webinars, and providing communications regarding new federal and state regulations. The Division has exceeded its target in complaint resolution, resolving most of them within thirty days.

The Credit Union Division is fully funded by fees assessed to the credit unions, based on asset size. We receive no funding from the state general fund. We currently assess the fees, based on actual expenses, twice a year, which are deposited in the Commerce Revolving Fund. We are exploring whether to go to a quarterly billing cycle. I have no proposed legislation for the Legislative session.

Number of Credit Unions by Asset Size:

\$1 Billion or above: 3

\$500 million to less than \$1 Billion: 3

\$100 million to less than \$500 million: 10

\$50 million to less than \$100 million: 11

\$10 million to less than \$50 million: 37

Less than \$10 million: 28